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TORONTO, February 6, 1980 -- A study of housing programs in Ontario, released today by the Ontario Economic Council, says that the "something-for-everyone" approach to housing policy has been inequitable and inefficient.

The 184 page study is particularly critical of federal and provincial homeownership programs for middle income groups claiming that the benefits from these programs are high compared to those from rental programs which assist lower income households. "Long before the problems of the neediest have been adequately dealt with, programs are brought forward to assist those with far more resources," the study states. "The proliferation of homeownership programs may make good politics but it is poor justice."

Housing Programs and Income Distribution in Ontario was prepared for the Council by York University economist Dr. George B. Fallis and is published by the University of Toronto Press. The study analyses the impact on income distribution of both rental and ownership programs as well as the provisions in the Income Tax Act which deal with housing. Fallis argues that concerns about income distribution have come to dominate most other concerns in the formulation of housing policy in the province.

In his analysis of public housing or rent-geared-to-income programs, Fallis says "public housing performs rather well in distributing the benefits to those in greatest need--among those who participate in the program. Its benefits are concentrated on its target group with over 75 per cent of the households from the lower third of the income distribution...(but) many deserving households on the basis of income do not participate in the program, while others of greater income do."

The author reaches similar conclusions in his examination of entrepreneurial (limited dividend) and non-profit programs. As with public housing, he says, "the problem of horizontal equity remains. Only a small fraction of each income class enjoys the benefits of the program. This fact also means that the criterion of vertical equity is only satisfied among those in the program. There remain many low income families with no assistance, while others with far more resources enjoy substantial assistance."

The homeownership programs examined in the study include the Residual Lending Program, the Home Ownership Made Easy (HOME) program, and the Assisted Home Ownership Program (AHOP). In each case Fallis' analysis indicates that the program is equitable among those who participate in the program but suffers from severe horizontal inequity in that the number of participants is small and "there is significant redistribution from all non-beneficiaries, many of whom are in similar economic circumstances or even worse off."

Finally, Fallis examines the current and proposed provisions in the Income Tax Act which deal with housing including exemption of imputed income, depreciation of rental housing, capital gains exemption, mortgage interest deductions and RHOSPs. According to Fallis, most of the income tax provisions are progressive among beneficiaries but are difficult to justify on grounds of equity since the majority of beneficiaries are middle and upper-income homeowners.

In comparing the exemption of imputed income with the rental depreciation provision, Fallis says that "the exemption is of far greater benefit to homeowners than the depreciation provision is to renters. Considering a marginal change in both tax laws", he concludes, "an average homeowner enjoys a benefit of about \$750 annually, while the benefit to an average renter is about \$100 annually."

Recent proposals for the deductibility of mortgage interest, Fallis argues, "seem explicable simply as the attempts of one group of the population to receive a transfer at the expense of another. Should a concern with the ability of low- and middle-income households to purchase housing genuinely exist, a far more effective and less costly program could easily be designed."

The study was prepared under the auspices of the Ontario Economic Council, established in 1962 as an independent public policy institute. The Council undertakes research and policy studies to encourage the optimum development of the human and material resources of Ontario and to support the advancement of all the sectors of the Province. The Council achieves these goals by sponsorship of research projects, publication of studies, and organization of the Outlook and Issues and other special conferences and seminars which are open to the public.

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NOTE: A list of persons to contact for further information, a brief biographical sketch of the author and a selection of quotations from the paper are attached.

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Dr. George B. Fallis is Assistant Professor, Department of Economics and Division of Social Science at York University. Dr. Fallis received his B.A. from the University of Toronto and his Ph.D. in Economics from Princeton University. Dr. Fallis is a former research officer with the Ontario Economic Council.

HOUSING PROGRAMS AND INCOME DISTRIBUTION IN ONTARIO (184 Pgs.) is published by the University of Toronto Press, 5201 Dufferin St., Downsview, Ontario M3H 5T8, or 33 East Tupper St., Buffalo, New York 14203.

Also available from the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario M7A 1N8. Price: \$8.50.

SELECTED QUOTATIONS

"There are signs that people are becoming more concerned about their 'share' and are organizing for collective political action to defend their positions. Doctors, university professors, and even those atomistic competitors the small businessmen are vocally pressing their cases. Certainly the experience of the Anti-Inflation Board in Canada has heightened everyone's sensitivity to relative position. A similar phenomenon has been noted in the United States: 'It is not just those at the bottom of the heap who are more conscious than ever of what they are missing. Increasingly - perhaps by reaction to the political emphasis on extreme poverty in the 1960s - it is those near the middle who seem most militantly concerned about their share. The double devastation of inflation and recession, moreover, exacerbates the concern with income shares, since everyone, including stockbrokers, feel abused when real income is falling.'

The effect of housing policy on income distribution will therefore likely continue to be of concern especially since that is the evident intention of many housing programs. Furthermore, much of the impact of the baby boom on the housing market is still to be felt." (Pg. 4)

"If public housing were replaced by a neutral alternative, the lower-income tenants would be made worse off and higher-income tenants better off using the market value measure of benefits. The ratio of the differential benefits to income rises with income, so that the public housing program clearly has a progressive pattern of benefits. The consumer's surplus measure of benefits shows a roughly similar distribution. In every case, though, the differential benefits using a consumer's surplus measure are larger, indicating that tenants place a lower value on the subsidy than the market value measure. The consumer's surplus benefits are about 55 per cent higher. This inefficiency of the subsidy is greatest at the lower income levels." (Pg. 66)

"Despite this relative success in meeting the vertical equity criterion, public housing is currently in disrepute. The dilemma is typical of the problem besetting most redistributive programs. In order that a program may efficiently reach the desired group, the beneficiaries must be clearly identified and often spatially concentrated, and detailed controls must be implemented on the form of assistance. Yet this identification creates a stigma for the beneficiaries, and the controls create a bureaucratic apparatus. At present most analysts seem to believe that the costs of the stigma outweigh the benefits of efficiency." (Pg. 69)

"On grounds of vertical equity, rent control seems to conform to commonly held standards. However, the horizontal inequities are more frequently the source of criticism; within an income class renters benefit while owners do not; investors in rental real estate lose while other households do not.

These results should only be considered a rough approximation of the shortrun effects of rent control rather than an analysis of the situation in Ontario. Conclusions regarding the redistribution following Rent Review await a more complete examination." (Pg. 80)

"That the majority of households should be homeowners and that young children ought to be raised in single detached homes are values which have always been widely held in Canada. Most families aspire to homeownership, and politicians and opinion leaders think this is a good thing. A nation of homeowners is a stable, respectable, 'thoroughly Canadian' nation. Housing policy in Canada and in Ontario has always accepted those values and indeed has probably done much to encourage and entrench them. There have always been numerous programs to assist homeownership." (Pg. 81)

"Like so many of the homeownership incentives of the 1970s and most of the income tax provisions, the RHOSP is difficult, indeed probably impossible, to justify on equity grounds. Even if middle class households were felt to be deserving of assistance, a system designed to take account of income could easily have been devised. The best explanation for this program may perhaps be contained in a facetious but revealing description of the operation of the federal bureaucracy offered to me by a friend working in Ottawa. He argued that each department had a constituency whose interests it sought to further. The Department of Finance, which controls tax policy, has as its constituency the upper middle class and seeks to redress the redistributive programs of other departments. The RHOSP, in this view, was designed to transfer resources to upper-income households." (Pg. 132)

"Also of note is the fact that the benefits under the recent homeownership programs are extremely generous, much larger than the benefits under the rental programs. This contrasts sharply with the public perception of rental programs as generous welfare giveaways. In reality, the most generous welfare is available to middle- and upper-income homeowners." (Pg. 135)

"Notwithstanding all the complexity and minutiae, a rough picture has emerged from these comparisons of shelter costs and incomes. The renter's situation has unambiguously improved, considering first rents alone and then all prices. The homeowner's situation is only slightly different. Using either the consumption or acquisition approach within an index of all prices reveals that homeowners have improved their lot too, a conclusion in sharp contrast to public perception of an eroding position. Only the very special issue of entry into the housing market reveals a squeeze between prices and incomes." (Pg. 36)

